

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3911
ANSWERED ON:17.08.2001
FRAUD BY NBFCs
JAYASHREE BANERJEE

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government are aware of the increase in the incidents of frauds made by the non-banking companies in the country during the last two years;
- (b) if so, the company-wise details of such incidents which took place in Madhya Pradesh and the action taken against the said companies;
- (c) the action taken to regularise the functionings of non-banking financial companies to protect the interests of investors; and
- (d) the action taken/proposed to be taken against these non-banking financial companies of Madhya Pradesh ?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

- (a) :- The Reserve Bank of India (RBI) has reported that it has received several complaints from depositors against some NBFCs who have failed to repay their deposits.
- (b):- The Bank has taken action against 5 Non-Banking Financial Companies which have their registered offices in Madhya Pradesh and have defaulted in repaying deposits. The company-wise details of the action taken by RBI against these companies are given in Annexure I.
- (c):- The Reserve Bank of India Act, 1934 was amended in 1997 to vest considerable powers with the Reserve Bank of India for effective regulation and supervision over NBFCs. Consequently, the RBI announced a new Regulatory Framework in January, 1998. Actions taken by the Reserve Bank of India to regularise functioning of NBFCs to protect the interests of the depositors are given in Annexure II.
- (d):- The actions taken against 5 Non-Banking Financial Companies having registered Offices in Madhya Pradesh are mentioned in Annexure I. These and other companies operating in Madhya Pradesh are subject to the measures taken by RBI, as given in Annexure II.

Annexure I

Details regarding action taken against NBFCs having their Registered offices in Madhya Pradesh

Sl.No. Name of Company Brief description of Company Action Taken by RBI

1. Al-Fahad Fincom Ltd.
2nd Floor, Meena bazaar
Complex, 55-56 Bombay
Bazar, Indore
It was a new NBFC
which commenced the business
of an NBFI and also accepted
deposits from the public without
applying for/ obtaining a
Certificate of Registration
from RBI. There were complaints
against the company for non-
repayment of deposits. Some of the directors/
officials of the company were
reportedly arrested by
police. A decision
has been taken for
winding up the company

and the case is in process.

2. Al-Fahad Investments

Ltd. Al-Fahad Group)

2nd Floor, Meena

bazaar Complex, 55-56

Bombay Bazar, Indore Application for issue of
certification of Registration

has been rejected on

5th July, 2000. Some of the directors/officials

of the company were reportedly
arrested by police.

A decision has been
taken for winding up
the company and the
case is in process.

3. Al-Amanat Finance &

Capital Services Ltd.

90, Kaghzipura, Indore RBI had received complaints

regarding non-payment of

amount aken by the company

in the form of security

deposits. An officer was deputed by the

Bank to conduct scrutiny of the
books of account of the company but the
company was found to have vanished.

Certificate of registration has been
cancelled on 21st May 2001. Director
General, State Bureau of Investigation,
Economic Offences Wing has been
requested to take suitable action. A
decision has also been taken to
initiate penal action against the
companies and the case is in process.

4. Linkers Securities

Limited, 22, Vaishali

Nagar, Kotra

Sultanabad, Bhopal. The application for COR

has been rejected on

October 16, 1998. Two depositors had gone to

Company Law Board (CLB)
against the company for
non-repayment of deposits.

CLB has passed orders
against the company. RBI
have lodged FIR with the
Police on September 25,
2000 as letters were
returned undelivered. The
Police have registered cases
in the court of judicial
magistrate in the court of
Bhopal.

5. Nabco Finvest Limited,

Nabco Financial

Corporation (uninc-
orporated body),

Ujjain. Naboc Finvest Limited

was conducting the

business of NFBI

without obtaining COR. An officer was

deputed for inspection

but both the entities

were found not existing.

The case is under process
for initiating penal action.

Annexure II

Actions taken by Reserve Bank of India to regularise functioning of Non-Banking Financial Companies to protect the interests of the depositors

1. No company engaged in the financial business can carry on/commence such business without a Certificate of Registration from Reserve Bank of India. The Certificate of Registration is being granted to the NBFCs on assessment and evaluation of the factors and criteria laid down in the Reserve Bank of India Act, 1934.
2. The NBFCs with Net Owned Fund (NOF) below Rs. 25 lakh were prohibited from accessing public deposits. The requirement of NOF has been raised to Rs. 200 lakh with effect from 21.4.1999. New companies are not allowed to accept public deposits for two years from commencement of operation.
3. The NBFCs are required to maintain liquid assets at 15% of the public deposits.
4. The NBFCs are required to create a reserve fund and to transfer at least 20% of net profits to such fund every year.
5. Reintroduction of the ceiling on the interest rate on deposits and rationalisation of rate of brokerage.
6. Loan and investment companies allowed to accept public deposits up to 1.5 times of their NOF subject to their achieving CRAR of 15% or more and minimum investment grade credit rating keeping in view the risk profile of their assets.
7. Disclosures in application forms and advertisement have been widened to enable depositors to take informed decision.
8. Caution to depositors to understand the financials of NBFCs.
9. Prescription of Prudential Norms for Income Recognition and Provisioning for Bad and Doubtful Debts. The Prudential Norms have also been extended to the Residuary Non-Banking Companies. Mandatory compliance with the Prudential Norms is a pre-requisite for acceptance of public deposits.
10. Credit and investment concentration norms are to apply to all financial exposures including to own subsidiaries and group companies.
11. Restrictions on investments in a real estate and unquoted shares.
12. Restrictions on NBFCs from creation of any asset in the event of failure to repay matured deposits.
13. NBFCs are required to obtain prior approval for change in their name.
14. NBFCs are required to give three months' prior public notice before change in management/transfer of control/merger/amalgamation of the company and the new would be obliged to offer to the depositors the option to retain their deposits or to repay such deposits.
15. NBFCs are to give notice to RBI at least 30 days prior to the opening of any branch.
16. NBFCs are required to give 3 months' public notice prior to closure of any branch or transfer of management or control of the company to another person.
17. NBFCs are permitted to open branches for collection of deposits and appoint agents outside the State of their registration only if they satisfy certain criteria of NOF and credit rating.
18. All the Directors of NBFCs have been advised to furnish PAN details so as to effectively deal with the problems of vanishing companies.
19. All large size NBFCs having assets size of Rs. 50 crore or above would mandatorily constitute an Audit Committee and institute an internal audit system.
20. Mutual Benefit Financial Companies (Nidhis) are precluded from issuing advertisement in any form and payment of brokerage on deposits.
21. Residuary Non-Banking Companies are required to invest at least 30% of the deposit liabilities in the specified securities as per the investment pattern prescribed by the Bank in lieu of linkage of NOF to total deposits.
22. RBI has developed a comprehensive four pronged mechanism to effectively supervise the NBFCs accepting/holding public deposits. This involves (a) on-site inspection of NBFCs, (b) off-site monitoring of NBFCs through periodic control returns from NBFCs using the state-of-art information technology, (c) an effective market intelligence network and (d) a system of submission of exception reports by auditors of NBFCs.
23. The Company Law Board (CLB) has been authorised under the RBI Act to adjudicate the claims of depositors with specific powers to direct the defaulting companies to make repayments. If an NBFC fails to honour the order of CLB, the RBI can launch

prosecution proceedings against it. The Bank has appointed nodal officers at its Regional Offices for instituting prosecution proceedings in such cases. The Bank has also constituted Co-ordination Committees at four metro centres to oversee the implementation of CLB orders by NBFCs.

24. The Bank also appoints observers in NBFCs, which face difficulties in repayment of deposits, in order to oversee the repayment of deposits by the companies as per Directions of RBI.

25. Wide publicity is given to rejection of application for Certificate of Registration and any adverse action taken by the Bank against NBFCs so as to keep the prospective depositors on alert.

26. The Bank has initiated adverse action against errant NBFCs for various defaults and contraventions of provisions of RBI Act and Directions issued thereunder. Adverse action against NBFCs involves issuing prohibitory orders prohibiting them from accepting further deposits, from alienation of assets, filing winding up petitions, launching criminal proceedings against NBFCs and their management for serious violation of the provisions of RBI Act, etc. The Bank also files complaints with the Economic Offences Wings of the State Police Authorities for curbing unauthorised acceptance of public deposits. In several cases the Courts have appointed Provisional Liquidators and also restrained the NBFCs from disposing of their assets in any manner.

27. The unincorporated bodies, engaged in the business of a financial institution, have been precluded from accepting deposits from any persons other than the relatives specified in the RBI Act. These entities are also precluded from issuing advertisements in any manner for soliciting deposits. The entities carrying on non-financial activities are free from the above restrictions.

28. A system for identification, follow-up supervision of problem NBFCs has been put in place by the Reserve Bank of India.